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GREATER OUACHITA WATER COMPANY
MONROE, LOUISIANA

FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED
AUGUST 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-15-06

GREATER OUACHITA WATER COMPANY
AUGUST 31, 2005

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.



"The CPA Never Underestimate The Value"

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- *Accounting & Auditing*
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- *Tax Preparation & Planning*
 - *Individual & Partnership*
 - *Corporate & Fiduciary*
- *Bookkeeping & Payroll Services*

December 21, 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Greater Ouachita Water Company
Monroe, Louisiana 71201

We have audited the accompanying statement of financial position of the Greater Ouachita Water Company (a nonprofit organization) as of August 31, 2005, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Ouachita Water Company, as of August 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Greater Ouachita Water Company taken as a whole. The accompanying financial information listed as supplementary financial information in the table of contents for the year ended

August 31, 2005, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2005 on our consideration of Greater Ouachita Water Company's internal control structure and its compliance with laws, regulations, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Johnston, Perry, Johnson & Associates, L.L.P.

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December 21, 2005

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Greater Ouachita Water Company
Monroe, Louisiana

We have audited the financial statements of Greater Ouachita Water Company (a nonprofit organization) as of and for the year ended August 31, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Greater Ouachita Water Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Greater Ouachita Water Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of

the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

GREATER OUACHITA WATER COMPANY
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2005

ASSETS

PLANT AND EQUIPMENT

Cost of Systems	28,703,952
Accumulated Depreciation	<u>-9,839,564</u>

<u>NET PLANT AND EQUIPMENT</u>	18,864,388
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INVESTMENTS - CURRENT

Revenue Fund	77,000
Interest Fund	295,234
Reserve Fund	260,000
Renewals, Replacements and Extensions Fund	52,375
Sinking Fund	273,522
Series 2003 Bonds Fund	<u>2,452,256</u>

<u>TOTAL INVESTMENTS - CURRENT</u>	3,410,387
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CURRENT ASSETS

General Fund Cash	220,929
Accounts Receivable - Customers (Net)	1,125,209
Prepaid Expense	<u>58,324</u>

<u>TOTAL CURRENT ASSETS</u>	1,404,462
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DEFERRED CHARGES

Unamortized Bond Issue Expense (Note B)	<u>132,567</u>
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<u>TOTAL DEFERRED CHARGES</u>	<u>132,567</u>
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<u>TOTAL ASSETS</u>	<u>23,811,804</u>
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The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AUGUST 31, 2005

LIABILITIES

LONG-TERM DEBT (NOTE D)

Bonds Payable - Series 1994A	1,165,000
Bonds Payable - Series 97A&B	2,980,000
Bonds Payable - Series 2003	8,965,000
Less: Current Maturities of Long-Term Debt	<u>-290,000</u>

TOTAL LONG-TERM DEBT 12,820,000

FUNDED LIABILITIES

Interest Payable	<u>295,234</u>
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TOTAL FUNDED LIABILITIES 295,234

CURRENT LIABILITIES

Accounts Payable - Trade	369,518
Accounts Payable - West Ouachita Sewer	263,859
Accounts Payable - Other Sewer	46,330
Current Maturities of Long-Term Debt	290,000
Payroll Taxes Payable	737
Sales Taxes Payable	<u>1,891</u>

TOTAL CURRENT LIABILITIES 972,335

DEFERRED LIABILITIES

Customer Meter Deposits	<u>486,279</u>
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TOTAL DEFERRED LIABILITIES 486,279

TOTAL LIABILITIES 14,573,848

NET ASSETS

NET ASSETS (SURPLUS) 9,237,956

TOTAL LIABILITIES AND NET ASSETS 23,811,804

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

<u>OPERATING REVENUE</u>		
Charges for Services	5,394,679	
Forfeited Discounts	101,740	
Reconnect Charges	131,255	
Sewer Inspection Fees	820	
Tapping Fees	<u>214,782</u>	
<u>TOTAL OPERATING REVENUE</u>		5,843,276
<u>COST OF SALES</u>		
Water Purchased	697,902	
Water and Sewer Taps	<u>218,719</u>	
<u>TOTAL COST OF SALES</u>		<u>916,621</u>
<u>GROSS PROFIT</u>		4,926,655
<u>FUNCTIONAL EXPENSES</u>		
Operating Expenses	4,400,286	
Administrative Expenses	<u>371,756</u>	
<u>TOTAL FUNCTIONAL EXPENSES</u>		<u>4,772,042</u>
<u>NET OPERATING PROFIT (LOSS)</u>		154,613
<u>OTHER REVENUES</u>		
Interest	78,484	
Miscellaneous	<u>82,246</u>	
<u>TOTAL OTHER REVENUES</u>		<u>160,730</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>		315,343
<u>NET ASSETS AT BEGINNING OF YEAR (RESTATED)</u>		8,922,613
<u>NET ASSETS AT END OF YEAR</u>		<u>9,237,956</u>

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2005

	ADMINISTRATIVE <u>EXPENSES</u>	OPERATING <u>EXPENSES</u>	<u>TOTAL</u>
Operating Contract	-	1,510,286	1,510,286
Power	-	583,119	583,119
Maintenance	-	536,260	536,260
Chemicals	-	56,730	56,730
Testing	-	21,005	21,005
Water Used in Sewer Plant	-	3,823	3,823
Service and Franchise Fees	-	19,168	19,168
Right of Way	-	500	500
Accounting	19,150	-	19,150
Advertising	-	-	-0-
Bank Charges	3,214	-	3,214
Dues and Subscriptions	430	-	430
Engineering Fees	-	14,581	14,581
Inspection and Supervision Fee	6,187	-	6,187
Insurance	64,393	-	64,393
Interest	-	615,028	615,028
Legal and Administrative	134,631	-	134,631
Miscellaneous	7,268	-	7,268
Office Expenses	51,928	-	51,928
Postage	1,281	-	1,281
Rent	1,080	-	1,080
Salaries	58,474	-	58,474
Taxes and Licenses	4,706	45,330	50,036
Telephone	4,173	-	4,173
Travel and Entertainment	1,341	-	1,341
Provisions for Bad Debts	-	50,254	50,254
Pension Expense	13,500	-	13,500
Amortization	-	18,825	18,825
Depreciation	-	925,377	925,377
	<u>371,756</u>	<u>4,400,286</u>	<u>4,772,042</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>			

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF CASH FLOWS
AUGUST 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	315,343
Noncash Items Included in Net Income	
Amortization of Bond Issue Expense	18,825
Depreciation	925,377
Changes in:	
Accounts Receivable	-147,181
Prepaid Expenses	-1,898
Interest Payable	-6,657
Accounts Payable - Trade	-67,003
Accounts Payable - Sewers	66,173
Payroll Taxes	57
Sales Taxes	576
Accrued Insurance	-21,059
Total Adjustments	<u>-249,338</u>

NET CASH PROVIDED BY (USED BY)
OPERATING ACTIVITIES

1,010,207

CASH FLOWS FROM INVESTING ACTIVITIES

Plant and Equipment	-2,350,428
Investments in Special Funds	<u>1,694,978</u>

NET CASH PROVIDED BY (USED BY)
INVESTING ACTIVITIES

-655,450

CASH FLOWS FROM FINANCING ACTIVITIES

Customer Meter Deposits	-77,216
Redemption of Bonds Payable	<u>-250,000</u>

NET CASH PROVIDED BY (USED BY)
FINANCING ACTIVITIES

-327,216

NET INCREASE (DECREASE) IN CASH

27,541

CASH AT BEGINNING OF YEAR

193,388

CASH AT END OF YEAR

220,929

Interest Paid During the Year was \$621,685
Income Taxes Paid During the Year were \$-0-

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2005

NOTE A - HISTORY AND ORGANIZATION

The Greater Ouachita Water Company was incorporated May 29, 1963, under the laws of the State of Louisiana, as a nonprofit organization. The Company was organized to consolidate various water companies operating in Ouachita Parish (Ouachita Parish Police Jury), a political subdivision of the State of Louisiana, into a single company in order to provide better service to the area residents.

By a contract dated June 12, 1963, between the Greater Ouachita Water Company and the Parish of Ouachita, the Company agreed to acquire and construct a waterworks, sewerage and natural gas system within the Parish. Under terms of the contract, the Parish recognizes the Company's title to the system until all indebtedness of the Company, together with accrued interest thereon, incurred by the Company in the financing of the purchase, extension and improvement of the Company is paid in full. When all such indebtedness of the Company is paid in full, all rights, title and interest of the Company and the system shall vest in the Parish.

An indenture of Mortgage, dated September 1, 1964, was made by and between the Greater Ouachita Water Company and the First National Bank of Commerce in New Orleans, now J.P. Morgan, a national banking association having an office in New Orleans, Louisiana, as trustee. Supplemental Indentures of Mortgage have been made covering additions to the system.

Revenue bonds were issued in five series. Proceeds of the first series (Series 1964) were received on September 23, 1964, and the first purchase of systems was made. Proceeds of the second series (Series 1965) were received on April 12, 1965, and additional properties were added to the system. Proceeds of the third series (Series 1994A) were received on March 16, 1994, and of the fourth series (Series 97A&B) were received on December 11, 1997. Proceeds of the fifth series (Series 2003) were received on August 7, 2003.

The Company began operations September 28, 1964. It has an agreement with M-N Utilities, Inc., West Monroe, Louisiana to operate the system. Johnny D. Nichols, West Monroe, Louisiana, is the president of M-N Utilities, Inc.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE A - HISTORY AND ORGANIZATION (Continued)

Officers and directors of the Company and salaries paid to them as officers during the period under review were:

W. D. Carter, Chairman of the Board	19,491
Robert E. Bentz, President	15,593
Wood T. Sparks, Secretary-Treasurer	<u>18,192</u>
<u>Total</u>	<u>53,276</u>

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The Company uses the accrual method of accounting.

Depreciation

Depreciation was computed using the straight-line method in amounts sufficient to amortize the cost of the depreciable assets over their estimated useful lives. The estimated useful lives used in computing depreciation are:

Cost of System	25 to 50 Years
Various Equipment	5 to 20 Years

Special Funds

The Indentures of Mortgage requires the Company twice each month to transfer from the general or operating bank accounts all monies in excess of a minimum amount that is shown by the annual budget to be necessary for operating expenses for the current fiscal year to the Trustee for credit to the Revenue Fund.

Monies received in the Revenue Fund are in turn transferred to other funds in the following order:

1. Interest Fund until at least six months' interest on all outstanding bonds is accumulated or restored. On August 31, 2005, the balance in the Interest Fund was \$295,234. Interest payable at August 31, 2005 was \$295,234.

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Reserve Fund until an amount equal to 100% of the maximum annual interest requirements on all outstanding bonds is accumulated or restored. On August 31, 2005, the balance in the Reserve Fund was \$77,000.
3. Renewals, Replacements and Extensions Fund until \$250,000 is accumulated or restored. During the period under review, additions and expenditures made to and from this fund for improvements to the system resulted in a balance of \$52,375.
4. Sinking Fund, an amount beginning September 15, 1998, which when multiplied by the number of such monthly deposits to be made during the next twelve month period will equal the annual requirement for that year. To date, adequate deposits have been made and the requirements of the Indenture of Mortgage have been met as shown below:

<u>Due Date</u>	<u>Amount Due</u>
August 15, 1969 - 2004	3,855,000
August 15, 2005	<u>290,000</u>
<u>Total</u>	<u>4,145,000</u>

The annual amount due on August 15, 2006 will be \$305,000.

5. Mandatory Retirement Fund, all remaining monies. On August 23 of each year, beginning August 25, 1969, all monies in the Sinking Fund will be transferred to this fund. At August 31, 2005, this transfer had not been made, and there was no balance in this fund.

Deferred Charges and Amortization

Discounts on bonds issued by the Company are being amortized over the term of the bonds. Shown below is an analysis of unamortized bond discounts.

Costs of issuing bonds are being amortized over the term of the bonds:

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Charges and Amortization (Continued)

Total Cost at August 31, 2004		327,116
Less: Prior Year Amortization	-175,724	
Less: Current Year Amortization	<u>-18,825</u>	
Total Amortization		<u>-194,549</u>
Balance at August 31, 2005		<u>132,567</u>

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts of \$5,652. Management believes that accounts receivable are substantially collectible and requires customers to provide meter deposits. Accounts receivable also includes unbilled revenues of \$476,081, which consist of revenues earned but not billed.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Income Taxes

The Company, a nonprofit corporation, is exempt from federal and state income taxes under Internal Revenue Code 501(a). Accordingly, no provision for income taxes has been made in the financial statements.

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expenses

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended August 31, 2005 were immaterial.

NOTE C - PLANT AND EQUIPMENT

Plant and equipment is stated at the acquisition costs of the assets of the company, with the exception of the systems of Lakeview Utilities, Inc., North Louisiana Production Corporation, and B & W Utilities, Inc., which were contributed by their owners and are stated at their appraised value. Maintenance and repairs are charged to operations currently and major renewals and betterments are capitalized. Additions to the system during the year ended August 31, 2005, totaled \$2,350,428. Shown below is an analysis of the cost of the system by expenditures from various funds:

	Balance <u>08/31/04</u>	During <u>Year</u>	Balance <u>08/31/05</u>
Bond Proceeds Series 1964	1,922,208	-	1,922,208
Bond Proceeds Series 1965	907,211	-	907,211
General Fund	14,908,270	512,091	15,420,361
Renewals, Replacements and Extensions Fund	3,245,544	27,348	3,272,892
Improvements Fund	1,672,800	1,810,989	3,483,789
Revenue Fund	35,016	-	35,016
1994A Fund	1,670,072	-	1,670,072
97A&B Fund			
Contributions	1,911,211	-	1,911,211
Lakeview Utilities, Inc.			
Water and Sewer System	196,000	-	196,000
North Louisiana Production Corp.			
Water System	71,800	-	71,800
B & W Utilities, Inc.			
Water System	44,658	-	44,658
	26,584,790	2,350,428	28,935,218
Less: Retirements			
Gas System Transferred	-231,266	-	-231,266
<u>Total</u>	<u>26,353,524</u>	<u>2,350,428</u>	<u>28,703,952</u>

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2005

NOTE C - PLANT AND EQUIPMENT (Continued)

The details of plant and equipment are as follows:

Water Mains and Extensions	12,206,502
Water Service Lines	920,917
Water Meters	759,297
Water Wells	5,188,626
Water Chlorine Equipment	141,888
Meter Stations	170,637
Sewer	8,083,392
Other Equipment	149,138
Land	<u>1,083,555</u>
<u>Total</u>	<u>28,703,952</u>

NOTE D - LONG-TERM DEBT

The Company originally issued bonds known as "Waterworks and Natural Gas System Revenue Bonds" in two series. Series 1964 bonds totaled \$2,270,000 and were issued September 1, 1964. They were paid off as of September 1, 1999. Series 1965 bonds totaled \$1,050,000 and were issued March 1, 1965. They were paid off as of September 1, 1999.

On March 16, 1994, the Company issued bonds known as "Greater Ouachita Water Company Waterworks and Natural Gas System bonds, Series 1994A" in the amount of \$2,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate is 6.25% through December 10, 1997, and thereafter shall bear interest at the rate determined by the Trustee on March 1, 2000, by adding 400 basis points to the five-year constant maturity treasury and multiplying such amount by the remainder of one minus the corporate tax rate applicable to Central Bank, now J. P. Morgan, Monroe, Louisiana on such date. Principal shall be payable annually on September 1 in each year commencing September 1, 1995.

On December 11, 1997, the Company issued bonds known as "Waterworks and Natural Gas Revenue Bonds of the Greater Ouachita Water Company Series 1997" in the amount of \$3,500,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 5.675%.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE D - LONG-TERM DEBT (Continued)

On August 7, 2003, the Company issued bonds known as "Waterworks and Natural Gas System Revenue Bonds Series 2003" in the amount of \$9,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 3.950%.

During the year ended August 31, 2005, \$250,000 in bonds were redeemed, bringing the total of all bonds redeemed to \$4,710,000. The balance of bonds outstanding at August 31, 2005 was \$13,110,000.

Principal payments for the next five years are as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2006	290,000
2007	305,000
2008	320,000
2009	335,000
2010	510,000

The fair value of the bonds payable is estimated based on the current rates offered to the Company for debt of the same remaining maturities. At August 31, 2005, the fair value of the bonds payable approximates the amounts recorded in the financial statements.

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY

On or about March 16, 1990, the Louisiana Department of Environmental Quality (LaDEQ) issued Compliance Order No. WC-90-014 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of permits at the following facilities in Ouachita Parish, Louisiana: Audubon Park, Bayou Oaks, Belle Meade/Timberwood, Eastwood Estates, Garden Park, Huntington Park, Lakeview Park, Leisure Village, Lincoln Park, Pecan Bayou/Treasure Island, Royal Pines, and Shenandoah. In response thereto, Greater Ouachita Water Company made a request for hearing, which was granted.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

On or about April 5, 1990, LaDEQ issued Proposed Penalty Notice WP-90-013 in the amount of \$6,000 to Greater Ouachita Water Company with regard to the alleged violations set forth in Compliance Order WC-90-014. In response thereto, Greater Ouachita Water Company made a timely request for a hearing, which was granted.

Greater Ouachita Water Company denied that it committed any of the violations alleged and further denied that it is liable for any fines, forfeitures, and/or penalties under Louisiana law, as alleged in Proposed Penalty Notice WP-90-013 and Compliance Order No. WC-90-014. Nonetheless, Greater Ouachita Water Company, without making any admission of liability under state or federal statute or regulation paid the total amount of the assessed penalty in the amount of \$6,000 in total settlement for the claims set forth in Compliance Order WC-90-014 and described in this Settlement Agreement and Penalty Notice WP-90-013, and those which could have been alleged subsequently with regard to Greater Ouachita Water Company's facilities.

On or about October 31, 2000, LaDEQ issued Consolidated Compliance Order and Notice of Potential Penalty No. WE-CN-00-0229 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Lake Park subdivision facility. Greater Ouachita Water Company did not file a request for hearing to contest the allegations of same, but did timely submit written comments concerning the alleged violations, the corrective or remedial actions taken to mitigate any damages resulting from the alleged violations, and to demonstrate why the assessment of a penalty would be inappropriate in that case.

On or about October 31, 2000, LaDEQ issued Consolidated Compliance Order and Notice of Potential Penalty No. WE-CN-00-0254 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Frenchman's Bend facility. Greater Ouachita Water Company timely filed a request for hearing, which was granted and has been docketed as number 2002-6921-EQ at the Division of Administrative Law.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

On or about November 2, 2000, LaDEQ issued Compliance Order No. WE-C-00-0233 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Wagon Wheel Road subdivision facility. Greater Ouachita Water Company timely filed a request for hearing, which was granted and has been docketed as number 2002-6920-EQ at the Division of Administrative Law.

On or about December 11, 2001, LaDEQ issued Compliance Order No. WE-C-00-0236 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Northeast Regional facility. Greater Ouachita Water Company timely filed a request for hearing; the time limit for LaDEQ to grant the hearing has been extended pursuant to an Agreement to Enter into a Dispute Resolution Discussion. On June 29, 2004, LaDEQ issued Amended Compliance Order WE-C-00-0236A, deleting many of Greater Ouachita Water Company's objections to the original order. Greater Ouachita Water Company has timely filed a hearing request to address remaining issues.

On or about April 4, 2002, LaDEQ issued Compliance Order No. WE-C-01-0109 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Pecan Bayou/Treasure Island facility. Greater Ouachita Water Company timely filed a request for hearing; the time limit for LaDEQ to grant the hearing has been extended pursuant to an Agreement to Enter into a Dispute Resolution Discussion.

On or about September 20, 2002, LaDEQ issued Warning Letter, Enforcement Tracking No. WE-L-02-0945 to the Ouachita Parish Police Jury in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Northwood Estates Sewer Treatment Plant, a facility owned by Greater Ouachita Water Company, but operated by the Ouachita Parish Police Jury. Greater Ouachita Water Company took over operations of the facility in January 2004.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

On or about September 20, 2002, LaDEQ issued Warning Letter, Enforcement Tracking No. WE-L-02-0987 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Thatcher Pointe Subdivision facility. On December 5, 2002, Greater Ouachita Water Company filed a response thereto, noting that the Thatcher Pointe Subdivision facility is a new plant and Greater Ouachita Water Company had been and continued to work with Delta Process Equipment, the sewer treatment plant manufacturing representative, to define the appropriate operating parameters.

On or about January 21, 2004, LaDEQ issued Warning Letter, Enforcement Tracking No. WE-L-04-0046 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Pecan Bayou/Treasure Island facility.

On or about June 15, 2004, LaDEQ issued Compliance Order No. WE-C-04-0338 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Northwood Oxidation facility. Greater Ouachita Water Company timely filed a request for hearing.

In response to the above compliance orders and/or notices of proposed penalty, Greater Ouachita Water Company constructed at a substantial cost two regional sewerage treatment facilities, commonly referred to as the Northeast Regional Facility and the Southeast Regional Facility, to treat sewage from the following facilities: Audubon Park, Bayou Oaks, Belle Meade/Timberwood, Eastwood Estates, Garden Park, Huntington Park, Lakeview Park, Lincoln Park, Shenandoah Estates, Southeast Sewer District, and other smaller local sewer systems. In addition, Greater Ouachita Water Company closed the Royal Pines facility and routed the sewage generated there to the West Ouachita Parish Sewer District No. 5.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

Further, Greater Ouachita Water Company has agreed to construct a third regional facility, to be known as the Highway 165 Regional facility, to treat sewerage from the following facilities: Pecan Bayou, Treasure Island, Leisure Village, Frenchmen's Bend, Lake Park Subdivision, Thatcher Plantation Subdivision, and perhaps North Monroe Subdivision and Fink's Hideaway Sewerage District Oxidation Pond, after which these facilities will be closed. In addition, this regional facility will provide capacity for expected population growth and increased sewer treatment needs in Ouachita Parish, Louisiana. Greater Ouachita Water Company has begun construction and anticipates that the new plant will be completed in late-2006: the Company has obtained a permit from both the U.S. Corps of Engineers and LaDEQ.

The Company has requested hearings on the orders, as indicated above, and believes that it has made good faith efforts to meet its obligations with LaDEQ within the confines of its available rate structure and has been actively contesting the orders. However, in recognition of the cost and risk of litigation, but without making any admission of liability under state or federal statute or regulation, Greater Ouachita Water Company has offered to pay a penalty in the amount of \$10,000 in settlement of all enforcement matters identified above. LaDEQ has not yet made a formal counteroffer.

NOTE F - REGULATORY COMPLIANCE - WATER

Several of the existing ground water wells providing potable water to customers are currently not in compliance with the contaminant limitations set by the EPA relative to total trihalomethanes (TTHMS) and/or haloacetic acids (HAA5). These contaminant regulations are promulgated under 40 CFR Part 141, National Primary Drinking Water Regulations, Subpart L, Stage 1 Disinfectant and Disinfection Byproducts Rule. The majority of wells in the State of Louisiana are not yet in compliance with these regulations due to the highly technical, costly, and yet to be proved methods required for control of these disinfection byproducts. GOWC has hired the consulting firm of S. E. Huey to perform a

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE F - REGULATORY COMPLIANCE - WATER (Continued)

detailed study and determine a solution to this existing state of non-compliance. Field studies and treatment methodology evaluations are currently underway. It is expected that this study will be completed around March 1, 2006.

NOTE G - APPLICATION TO THE LOUISIANA PUBLIC SERVICE COMMISSION FOR RATE INCREASE

The Company applied to the Louisiana Public Service Commission for a water and sewer rate increase to eliminate its loss for 2001 and fund additional improvements to its water and sewer systems.

The Commission granted the rate increase in part and in phases on February 22, 2002. The first phase went into effect in March 2002. The second phase will go into effect in 2005. The Commission also approved the Company's request to issue up to \$16,000,000 in new bonds to fund improvements to its water and sewer systems and construct additional sewer facilities to comply with DEQ permit requirements.

The Company issued its Series 2003 bonds on August 7, 2003 in the amount of \$9,000,000. The proceeds were used to payoff the Company's existing line of credit at Bank One, now Chase Bank, in the amount of \$3,147,901. The remaining proceeds were used to pay costs of issuance and will fund capital improvements to the Company's water and sewer systems. The rate increase granted in March 2002 allowed the Company to eliminate its loss and will provide sufficient revenues to amortize the new bond issue with adequate bond coverage ratios. The Company plans to issue additional bonds in 2006 not to exceed \$9,000,000 to fund additional capital improvements to its water and sewer systems. The second phase rate increase and the final phase should produce sufficient revenues to amortize these additional bonds with adequate bond coverage ratios.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE H - PENSION PLAN

A money purchase pension plan was put into effect on September 1, 1995. All employees of the Company are eligible. The Company will contribute on the behalf of each participant 25% of the participant's compensation. The amount contributed during the year ended August 31, 2005 was \$13,500.

NOTE I - LAWSUITS

The Company is involved in various lawsuits incurred by operating in the normal course of business. The outcomes of these lawsuits are not expected to be material.

NOTE J - CONCENTRATION OF RISK

The Company maintains its cash balances at institutions which are insured by the Federal Deposit Insurance Corporation up to \$100,000. At August 31, 2005, Company's uninsured cash balance was \$109,672.

Concentration of credit risk with respect to water and sewer billing receivables are limited due to the large number of customers and small balances. The risk is minimized further by customer meter deposits.

NOTE K - RELATED PARTY TRANSACTIONS

The following related party transactions were incurred in the normal course of business:

R. E. Bentz, Inc., partially owned by Robert E. Bentz, director, earned \$9,810 for maintenance on the water and sewer system. At August 31, 2005, \$31 was accrued and payable for maintenance services.

Dean Morris, LLP, (of which Wood T. Sparks is Of Counsel), earned \$87,062 for legal services performed for the Company.

W. D. Carter, director, earned \$7,268 for various consulting services performed for the Company.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2005

NOTE L - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. The Company has determined that fund-raising costs are not material.

ADDITIONAL INFORMATION

SCHEDULE I

GREATER OUACHITA WATER COMPANY
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2005

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<u>OPERATING REVENUE</u>			
Charges for Services	4,320,206	1,074,473	5,394,679
Forfeited Discounts	81,392	20,348	101,740
Reconnect Charges	131,255	-	131,255
Sewer Inspection Fees	-	820	820
Tapping Fees	181,355	33,427	214,782
<u>TOTAL OPERATING REVENUE</u>	<u>4,714,208</u>	<u>1,129,068</u>	<u>5,843,276</u>
 <u>DIRECT OPERATING EXPENSES</u>			
Operating Contract	1,257,127	253,159	1,510,286
Power	398,799	184,320	583,119
Maintenance	405,328	130,932	536,260
Chemicals - Sewer	-	56,730	56,730
Testing - Sewer	-	21,005	21,005
Engineering Services	12,851	1,730	14,581
Water Purchased	697,902	-	697,902
Water Used in Sewer Plant	-	3,823	3,823
Service and Franchise Fees	-	19,168	19,168
Right of Way	500	-	500
Water and Sewer Taps	179,749	38,970	218,719
<u>TOTAL DIRECT OPERATING EXPENSES</u>	<u>2,952,256</u>	<u>709,837</u>	<u>3,662,093</u>
<u>NET OPERATING INCOME</u>	1,761,952	419,231	2,181,183
<u>ADMINISTRATIVE EXPENSES</u>	222,923	148,833	371,756
<u>NET OPERATING PROFIT</u>	1,539,029	270,398	1,809,427
<u>OTHER INCOME</u>	128,584	32,146	160,730
	1,667,613	302,544	1,970,157
<u>OTHER EXPENSES</u>	352,119	358,493	710,612
<u>NET INCOME BEFORE AMORTIZATION AND DEPRECIATION</u>	<u>1,315,494</u>	<u>-55,949</u>	<u>1,259,545</u>
<u>AMORTIZATION AND DEPRECIATION</u>			
Amortization of Bond Issue Exp. - 1994A	2,686	671	3,357
Amortization of Bond Issue Exp. - 97A&B	9,592	2,398	11,990
Amortization of Bond Issue Exp. - 2003	2,782	696	3,478
Depreciation Expense	622,224	303,153	925,377
<u>TOTAL AMORTIZATION AND DEPRECIATION</u>	<u>637,284</u>	<u>306,918</u>	<u>944,202</u>
<u>NET INCOME FOR THE YEAR</u>	<u>678,210</u>	<u>-362,867</u>	<u>315,343</u>

See Auditors' Report.

GREATER OUACHITA WATER COMPANY
STATEMENT OF FUNCTIONAL EXPENSES - BY PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2005

	ADMINI- STRATIVE EXPENSES	WATER SYSTEM	SEWER SYSTEM	TOTAL
Operating Contract	-	1,257,127	253,159	1,510,286
Power	-	398,799	184,320	583,119
Maintenance	-	405,328	130,932	536,260
Chemicals	-	-	56,730	56,730
Testing	-	-	21,005	21,005
Water Used in Sewer Plants	-	-	3,823	3,823
Service & Franchise Fees	-	-	19,168	19,168
Right of Way	-	500	-	500
Accounting	19,150	-	-	19,150
Advertising	-	-	-	-0-
Bank Charges	3,214	-	-	3,214
Dues & Subscriptions	430	-	-	430
Engineering Fees	-	12,851	1,730	14,581
Inspection & Supervision Fees	6,187	-	-	6,187
Insurance	64,393	-	-	64,393
Interest	-	275,651	339,377	615,028
Legal & Administrative	134,631	-	-	134,631
Miscellaneous	7,268	-	-	7,268
Office Expenses	51,928	-	-	51,928
Postage	1,281	-	-	1,281
Rent	1,080	-	-	1,080
Salaries	58,474	-	-	58,474
Taxes & Licenses	4,706	817	44,513	50,036
Telephone	4,173	-	-	4,173
Travel & Entertainment	1,341	-	-	1,341
Provision for Bad Debts	-	40,203	10,051	50,254
Pension Expense	13,500	-	-	13,500
Amortization	-	15,060	3,765	18,825
Depreciation	-	622,224	303,153	925,377
<u>TOTAL</u>	<u>371,756</u>	<u>3,028,560</u>	<u>1,371,726</u>	<u>4,772,042</u>

See Auditors' Report.

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GREATER OUACHITA WATER COMPANY
STATEMENT OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2005

	<u>WATER</u> <u>SYSTEM</u>	<u>SEWER</u> <u>SYSTEM</u>	<u>TOTAL</u>
Accounting	15,299	3,851	19,150
Bank Charges	2,568	646	3,214
Dues & Subscriptions	344	86	430
Inspection & Supervision Fees	4,943	1,244	6,187
Insurance	51,514	12,879	64,393
Legal & Administrative	33,383	101,248	134,631
Miscellaneous	5,814	1,454	7,268
Office Expenses	41,486	10,442	51,928
Postage	1,024	257	1,281
Rent	863	217	1,080
Salaries	46,715	11,759	58,474
Taxes & Licenses	3,765	941	4,706
Telephone	3,334	839	4,173
Travel & Entertainment	1,071	270	1,341
Pension Expense	<u>10,800</u>	<u>2,700</u>	<u>13,500</u>
 <u>TOTAL ADMINISTRATIVE EXPENSES</u>	 <u>222,923</u>	 <u>148,833</u>	 <u>371,756</u>

See Auditors' Report.

GREATER OUACHITA WATER COMPANY
CURRENT YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2005

INTERNAL CONTROLS

None

COMPLIANCE

None

See Auditors' Report.

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GREATER OUACHITA WATER COMPANY
PRIOR YEAR FINDINGS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS
AUGUST 31, 2005

INTERNAL CONTROLS

There were no findings nor recommendations in the prior year.

COMPLIANCE

There were no findings nor recommendations in the prior year.

See Auditors' Report.

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